

1974
ANNUAL
REPORT



ALMINEX LIMITED

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ALMINEX LIMITED

Board of Directors

M. A. Cooper, Toronto, Ontario

President and Managing Director
Falconbridge Nickel Mines Limited

D. R. De Laporte, Toronto, Ontario

Vice-President Western Minerals Division
Falconbridge Nickel Mines Limited

W. F. James, Toronto, Ontario

Vice-President of the Company

J. E. Reid, Houston, Texas

President and Chief Executive Officer of the Company

J. N. Stephen, Calgary, Alberta

Vice-President and General Manager of the Company

J. B. Webb, Calgary, Alberta

Consultant to the Company

Officers

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J. E. Reid

President and Chief Executive Officer

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J. N. Stephen

Vice-President and General Manager

A. E. Sivertson

Treasurer

D. G. C. Menzel

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REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

FINANCIAL

Alminex's financial highlights for the year ended December 31, 1974, compared with those of 1973, are presented in the following table. A more complete discussion of these results and the financial statements are presented later in this report.

	1974	1973	% Change
Gross Revenue	\$14,776,000	\$11,555,000	+ 27.88%
Cash Flow from Operations	10,886,000	7,747,000	+ 40.52%
Per Share	\$ 1.42	\$ 1.01	
Net Income	4,852,000	3,117,000*	+ 55.66%
Per Share	\$.63	\$.41	
Dividends Paid	1,839,000	1,837,000	+ .11%
Per Share	\$.24	\$.24	
Working Capital	5,361,000	3,934,000	+ 36.27%
Exploration Expenditures	2,319,000	1,862,000	+ 24.54%

*Re-stated To Reflect Adoption Of Deferred Taxes

SALES VOLUMES AND RESERVES

Sales volumes, before royalty, of oil, natural gas and natural gas liquids declined, while sulphur sales increased. Reserves, before royalty, of the foregoing products also declined, and further details are contained in the related sections of this report.

	1974	1973*	% Change
Crude Oil & Natural Gas Liquids (Barrels)	3,139,000	3,318,000	— 5.39%
Daily Average (Barrels)	8,600	9,091	
Natural Gas (Thousands of Cubic Feet)	9,902,000	10,106,000	— 2.01%
Daily Average (Thousands of Cubic Feet)	27,129	27,686	
Sulphur (Long Tons)	5,580	4,548	+ 22.69%
Daily Average (Long Tons)	15	12	
Proven & Probable Reserves			
Crude Oil & Natural Gas Liquids (Barrels)	45,277,000	50,536,000	— 10.41%
Natural Gas (Billions of Cubic Feet)	184.280	187.824	— 1.89%
Sulphur (Long Tons)	316,000	346,000	— 8.67%

*Re-stated To Include Royalty

EXPLORATION AND DEVELOPMENT

Sixteen exploratory wells were drilled on Alminex's acreage in Ontario, Alberta, British Columbia and the Northwest Territories. This program resulted in three gas discoveries and one oil discovery. In the United States, six wells were drilled on land, and 25 wells off-shore in the Gulf of Mexico. In addition to one gas discovery and one oil discovery on land, four offshore Federal lease blocks, in which Alminex has small interests, are now believed to be capable of commercial production. Platforms have been installed on two blocks and development drilling has begun. A third platform will be installed in 1975, and a fourth is anticipated in 1977. Additional wells on other blocks have encountered hydrocarbons, but their commercial significance remains to

be determined. In Turkey, an oil discovery is awaiting production testing.

The development drilling program was primarily confined to Alberta where a total of 26 wells were drilled. Of these, 12 are gas and three are oil wells. One development well in Montana was dry.

THE INDUSTRY

The oil industry has achieved for Canada a self-sufficiency in petroleum which is unusual in today's world, threatened as it is by the instability of supply and high prices caused by the OPEC cartel. This self-sufficiency was achieved in the face of limited demand and restricted access to Eastern Canadian markets. Since the uncertainty of foreign oil supplies now faces Eastern Canada the industry is

required to reduce, and eventually eliminate, its exports to long-time United States customers. It is not intended to deprecate the fact that Canada's resources must first supply the needs of Canadians, but, until the oil pipe line is extended, and until domestic oil demand increases, the industry is being asked to face a disruption of its markets.

Irreconcilable with the necessity to provide adequate reserves for Canada is the confrontation between Federal and Provincial Governments. In response to higher product prices, which will be described elsewhere in this report, Alberta and other Provincial Governments through unreasonably high royalties, or, as in British Columbia by limiting the producers' gas selling prices, moved to tax what they termed "windfall" profits, forgetting the increased costs of production and the necessity to allow adequate funds to companies to maintain their exploration programs. In its budget of November 18, 1974, among other disincentives, the Federal Government reacted by disallowing all Provincial royalties in the calculation of corporate income tax; narrowing the definition of exploratory expenses while still allowing their 100% deduction, and instituting the capitalization of development expenses and Crown land acquisition costs where previously 100% deductions were permitted. Fortunately, the Alberta Government, through its "Petroleum Exploration Plan of December 1974", moved to mitigate the effects of the budget, when it becomes law, by reducing the royalty paid on existing production; refunding Alberta's share of the corporate tax paid on royalties, and instituting a credit on the Federal tax paid on royalties to a maximum of one million dollars. Subsequently, incentive programs were also proposed by Saskatchewan and British Columbia.

The actions of Governments in Canada have severely eroded investor confidence at a time of attractive exploration opportunities elsewhere. Trained personnel, drilling and other needed equipment are leaving. This confidence is more likely to return if the Federal Government makes some positive concession in response to the Alberta initiative. It is also important to remember that conservation through reduction of exports will not ensure Canada's oil requirements. Only investor confidence and expanding markets will result in aggressive exploration, and it is only through such a program that Canada can hope to be provided with the reserves it needs to meet its future.

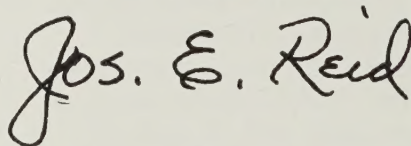
THE OUTLOOK FOR ALMINEX

The problems outlined in the previous section are of paramount importance to your Company, but it intends to continue exploration in Canada in the hope and expectation that Governments will settle their disputes and provide a reasonable economic environment. As a Company, the majority of whose stock is owned by Canadians, Alminex feels a responsibility to continue its efforts to help in supplying Canada's energy needs. To this end, gravity studies will continue in Ontario, and seismic programs are planned in the Peace River area of Alberta and in the deeper portions of the Alberta Basin. Alminex has joined with a group of companies in exploration of the foothills and mountain belts of Alberta, and wells are planned in all areas undergoing investigation. For 1975, development wells are planned in several fields in Alberta, but it is anticipated that the level of capital expenditures in Canada will be substantially lower than in the recent past.

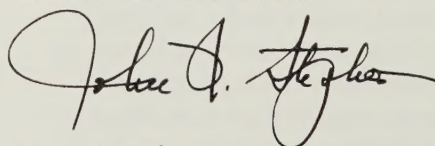
It is considered more important than ever that your Company enjoy an expanding revenue base in other parts of the world. Over the past few years, a significant effort has been made in this direction and the results are recorded in other sections of this report. During 1975, an even more aggressive effort will be made. Exploratory wells will be drilled in New York, Montana, Colorado, Oklahoma, offshore Texas and offshore Louisiana. Development wells are planned in northern Montana, Colorado, and from the two production platforms recently installed offshore Texas. Further exploration activity is planned for Turkey, and other areas are currently under consideration.

Your Directors are pleased to extend their appreciation and thanks to the employees for their conscientious and dedicated efforts during the year.

On behalf of the Directors,



President and
Chief Executive Officer



Vice President and
General Manager

Calgary, Alberta
February 17, 1975

Operations in Review



EXPLORATION

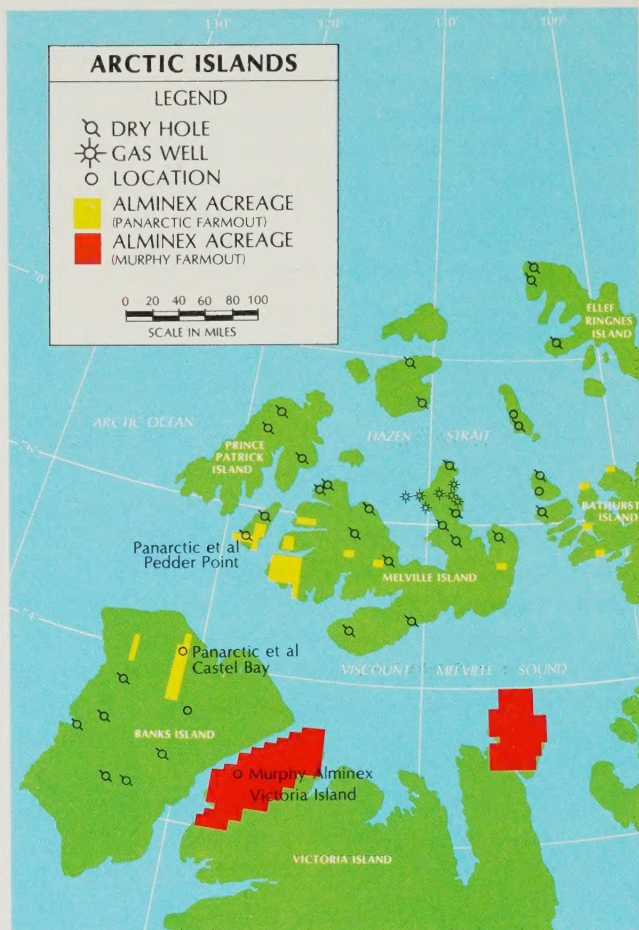
CANADA

Thirteen wells were drilled in Alberta and one each in Ontario, British Columbia and the Northwest Territories. This exploration program discovered oil at Condor, gas at Big Bend and in multi-zones at Blueberry Mountain, all in Alberta, and gas at Horseshoe in British Columbia. Alminex has a 25% interest in 960 acres on which the well at Condor is located. It has the same interest in 2,560 acres in Blueberry Mountain, in which several formations have proven to be highly productive; however, the producing area appears limited. This discovery was mentioned briefly in the 1973 Annual Report. Your Company also has a 25% interest in the Big Bend discovery and in the 5,760 lease acres surrounding it. Further development is anticipated when market demand warrants. Its interest in the Horseshoe well is 12.5% and production testing is under way to determine the significance of this discovery. In addition to 32,408 acres of permit lands surrounding the well, a drilling reservation of 16,849 acres was purchased in order to enlarge the land holdings in the area.

Several seismic surveys in southern and central Alberta were undertaken, as well as an extensive gravity program in Ontario. It is Alminex's intention to maintain exploration activities in Alberta and Ontario, and geophysical programs and exploratory drilling are planned in both areas during 1975.

Murphy Oil Company Ltd. is completing its obligations under which it will earn 50% of Alminex's 100% interest in 5.4 million acres in the Arctic Islands. Late in 1974, it spudded a well, Murphy Alminex Victoria Island F-36, located on Victoria Island, but, because of adverse weather conditions, the drilling of this test, which will be at least 8,000 feet in depth, was delayed until early in 1975. In January 1975, Panarctic Oils Ltd. spudded the Castel Bay C-68 well on Permit No. A-1778 on Banks Island in the Arctic. Although Alminex has a 15% interest in this Permit, it declined to participate in the drilling of this well and, while it may become subject to a production penalty, it will lose no interest thereby.

ATHABASCA OIL SANDS: Oil Sands Lease No. 30, comprising 37,715 acres, is owned jointly by Alminex 12.5% and Home Oil Company Limited 87.5%. Evaluation of this lease continued during 1974 and, on April 1, an application was submitted to the Alberta Energy Resources Conservation Board seeking approval to construct a 103,000-barrel-per-day extraction plant at an estimated cost of one



billion dollars. Negotiations with prospective partners were also undertaken but were suspended when Syncrude's problems with inflated costs, taxation and price uncertainties were publicized. The recent agreement whereby the Governments of Canada, Alberta and Ontario will participate with the remaining members of the Syncrude group, the assurance of world prices for Syncrude's production and the expensing of its royalty payments are encouraging developments and will have a positive impact on all other oil sands projects, including that of Alminex and Home. These concessions, however, are not available to conventional crude producers.

UNITED STATES

ON LAND: Six wells were drilled: one in Colorado, two in Montana, two in Nebraska and one in Wyoming. A test at Tingdahl in northern Montana, in which Alminex has a 12.5% interest, is a modest gas discovery in shallow formations, and an oil discovery was recorded at Beaver Creek in northwestern Colorado. The remainder were dry holes. A second well in northwestern Colorado was drilling at year-end. The economic significance of the oil discovery will be dependent upon production testing now in progress. Alminex has a 17.5% interest in the well and in 3,116 acres surrounding it.

OFFSHORE: Alminex participated in 27 wells offshore Texas, of which four were drilling at year-end. All were located on Federal leases (5,760 acres each) acquired in 1973 and 1974. As some offsetting acreage is available, drilling information must remain confidential but, to date, commercial discoveries have been made on Block 110 (Alminex's interest 0.125%) and Block A-323 (0.250%), and production platforms have been installed. A discovery made on Block A-343 (1.0%) is also considered commercial, but a platform, although ordered, is unlikely to be installed until 1977 because of delays in delivery. Hydrocarbons have also been found in wells drilled on Blocks A-325 (0.125%), A-337 (1.0%) and A-555 (0.25%), but their commercial significance is subject to further drilling. Offshore Louisiana, Alminex joined in the drilling of two wells on Block 243. This is one of two blocks of leases comprising 4,351 acres and 5,000 acres, respectively, in which your Company bought a 4% interest in 1974. A third well was drilling on December 31 and, since the year-end, a fourth well has been drilled and a fifth has been spudded. Details must also remain confidential, but results indicate a commercial gas accumulation and a production platform is expected to be installed later in 1975.

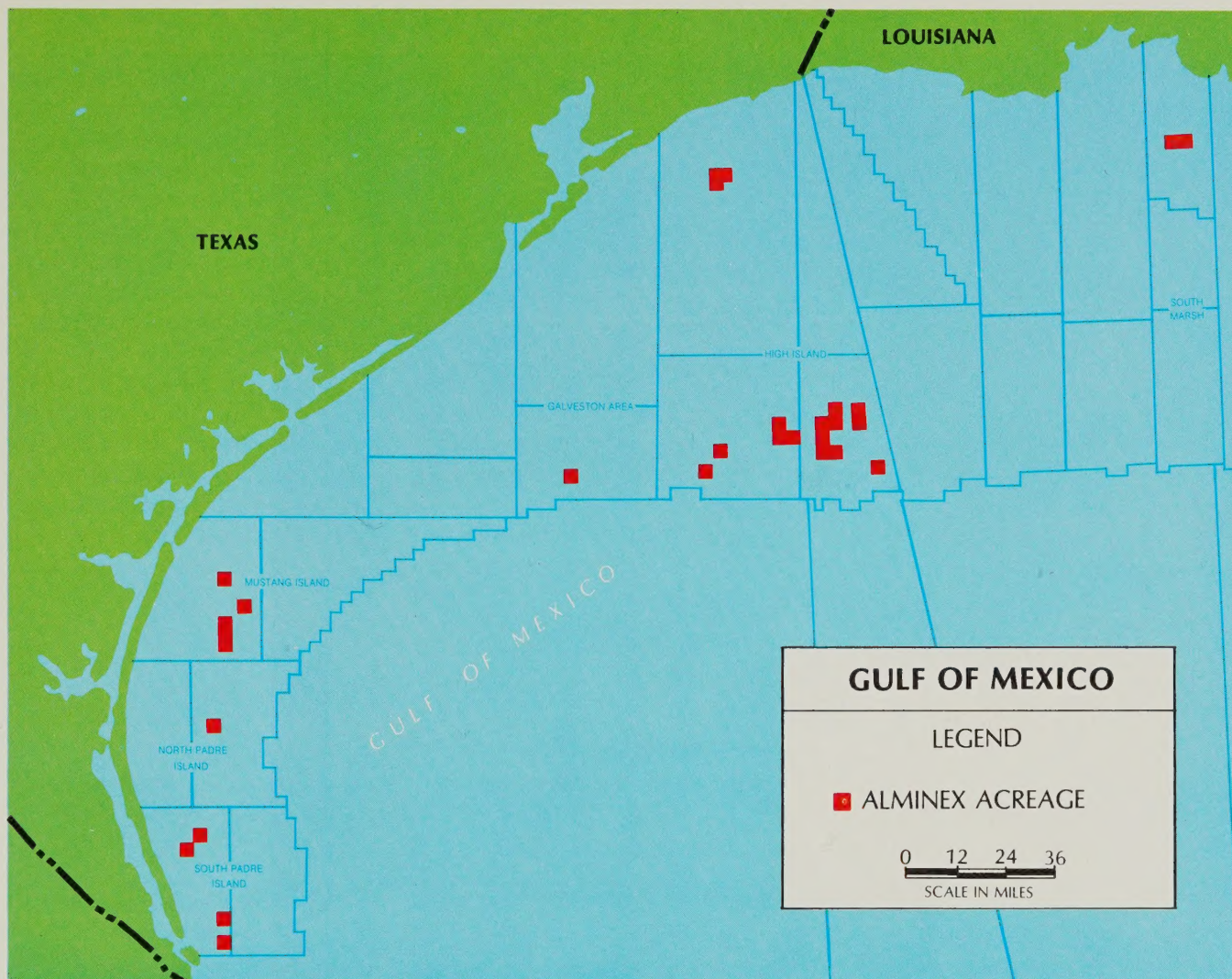
TURKEY

In southeastern Turkey, near the city of Diyarbakir, Alminex has a 10% interest in a Cretaceous test which discovered oil. Only minimal production testing has taken place, but it already appears that large quantities of water will be recovered along with the oil production. An extended testing program is presently being considered, and will determine whether the present well is deepened or development wells drilled. The test is located on a license covering 123,550 acres, and Alminex has secured a similar interest in a license comprising 123,550 acres to the south.

SOUTHWEST AFRICA

Your Company participated in a farm-in of an offshore concession of 8,185 square miles and paid 25% of the cost of a seismic program of 334 miles undertaken with its partners. A reported gas discovery lies 50 miles from the western boundary of the acreage and it has been decided to exercise an option and continue the investigation of the lands during 1975. For the work done to date, Alminex has earned a 5% interest, which will increase to 7.5% following the completion of 1975's program.

The table opposite describes the exploration drilling during 1974:



EXPLORATION DRILLING

	Oil	Gas	Dry	Total
Alberta	1	2	10	13
British Columbia	-	1	-	1
Ontario	-	-	1	1
Northwest Territories	-	-	1	1
United States (On Land)	1	1	4	6
(Offshore) ...	Status	Confidential		25
Turkey	1	-	-	1
TOTAL	3	4	16	48

DEVELOPMENT

Of 27 development wells, in which Alminex has an interest, 26 were located in Alberta and one in Montana. The results of this program are summarized in the following table:

DEVELOPMENT DRILLING

	Oil	Gas	Dry	Total
Alberta	3	12	11	26
United States	-	-	1	1
TOTAL	3	12	12	27



*Western Pacesetter III
drilling on Block A-343, High
Island Area, Texas offshore
Alminex interest 1%.*

Two of five gas wells at Princess were drilled by farmees and Alminex retained a small override. Your Company joined for a 25% interest in the remaining three. All are low-volume producers from the shallow Cretaceous reservoirs which are being extensively developed in southeastern Alberta. Two wells at Condor were drilled up-dip from a previous oil discovery but both found wet gas and cannot now be produced because they are located in the gas cap of the oil accumulation. Possibilities for extraction of the liquids contained in the natural gas and gas re-injection are being studied. One of these wells also found gas in a second Cretaceous reservoir and will be placed on production when market conditions permit. A well at Big Bend, offsetting a previous gas discovery, was successful and is suspended pending a market, with Alminex's share being 25%. A shallow gas well was drilled at Mitsue and two wells, located on the east side of the field in an attempt to extend the production from the deeper oil reservoir, found gas. As at Condor, this would normally preclude production of natural gas liquids, but the matter is being investigated further. One offset gas well at Blueberry Mountain (Alminex's interest 25%)

was successfully completed, but appears capable of production from only one of the reservoirs present in the discovery well. Two wells at Freeman (Alminex's interest 8.33%) successfully extended this field's oil production southward. Of three wells drilled on the west side of the Swan Hills field, one was successfully completed and has been added to the Swan Hills Unit in which Alminex's share is 5.09%. A well at Benjamin Creek, in which your Company has a 4.5% interest, was drilling at year-end and is currently being tested.

LAND ACQUISITIONS

During the early part of 1974, Alminex actively acquired acreage in Ontario, Alberta and British Columbia. In part, these lands were acquired for their exploration potential, but, at Blueberry Mountain in Alberta and at Horseshoe in British Columbia, lands were obtained to improve acreage positions in the vicinity of discoveries.

In the United States, Alminex participated 50% in the assembly of almost 90,000 acres of leases in southern Montana, and has varying interests in other acquisitions in Illinois, Oklahoma, northern Montana, eastern Wyoming

and northwestern Colorado. Fifty thousand acres of leases have been put together in New York State, with your Company's interest being 20% or more. In the Gulf of Mexico, offshore Texas, Alminex participated in successful bids and purchased interests between 0.25% and 5% in five Federal lease blocks at a total cost of \$726,652. Four of these blocks are 5,760 acres each in size, and the fifth is 2,880 acres. Offshore Louisiana, Alminex purchased a 4% interest in two blocks, one of 5,000 acres and the other 4,351 acres, at total cost of \$593,877. These acquisitions increased to 19 the number of blocks in the Gulf of Mexico in which Alminex has an interest. On February 4, 1975, Alminex and its partners participated in another sale of Federal lands offshore Texas and were the high bidders on 12 blocks, also of 5,760 acres each. Bids on 10 blocks have

been accepted and two bids were rejected. Alminex has a 10% interest in seven of the blocks purchased and a 5% interest in three. In Turkey, Alminex earned a 10% interest in 123,550 acres by participating in the drilling of the oil discovery described elsewhere in this report. It has also obtained a 10% interest in a license comprising the same number of acres, adjacent to the one in which the oil discovery was made.

A group in which Alminex was a participant was offered exploratory acreage by the Norwegian Government, but this offer was declined as it was felt that the potential of the acreage did not justify the obligations which the Norwegians required.

The following table summarizes Alminex's land holdings as of December 31, 1974:

Area	Reservations, Licenses, Permits		Petroleum and Natural Gas Leases		Total	
	Gross	Net	Gross	Net	Gross	Net
CANADA						
Alberta	125,155.00	36,798.59	1,298,138.59	226,936.04	1,423,293.59	263,734.63
Saskatchewan	134,960.00	56,333.37	93,587.00	38,408.37	228,547.00	94,741.74
British Columbia	75,079.00	14,763.59	54,461.00	5,951.15	129,540.00	20,714.74
Ontario	—	—	26,574.00	13,287.00	26,574.00	13,287.00
Yukon and N.W.T.	992,458.00	508,436.44	285,081.00	27,232.72	1,277,539.00	535,669.16
Arctic Islands	7,338,364.00	5,659,568.00	—	—	7,338,364.00	5,659,568.00
UNITED STATES						
Colorado	—	—	3,194.30	559.00	3,194.30	559.00
Illinois	—	—	6,420.92	2,432.84	6,420.92	2,432.84
Louisiana (Offshore)	—	—	10,000.00	400.00	10,000.00	400.00
New York	—	—	50,000.00	10,250.00	50,000.00	10,250.00
Oklahoma	—	—	4,107.67	1,767.52	4,107.67	1,767.52
Texas (Offshore)	—	—	89,280.00	360.00	89,280.00	360.00
Wyoming	—	—	4,359.58	1,302.35	4,359.58	1,320.35
OVERSEAS						
Turkey	247,105.00	24,710.00	—	—	247,105.00	24,710.00
S.W. Africa	5,238,634.00	261,931.70	—	—	5,238,634.00	261,931.70
TOTAL	14,151,755.00	6,562,541.59	1,925,204.06	328,886.99	16,076,959.06	6,891,428.68

SALE OF PRODUCTION

In a departure from previous years, Alminex is no longer reporting sales of crude oil, natural gas, natural gas liquids and sulphur on an "after-royalty" basis. Comparisons of net product sales from year to year are rendered

meaningless as the Crown's royalty on most commodities is now related to price and, on the same volumes, the Crown royalty can, and will, vary as prices change. The following table is a comparison of product sales volumes for 1974 with those for 1973, inclusive of royalty:

	Oil (Bbls)		Natural Gas (MCF)		Natural Gas Liquids (Bbls)		Sulphur (Long Tons)	
	1974	1973*	1974	1973*	1974	1973*	1974	1973*
Alberta	2,820,027	2,973,342	9,876,879	10,073,748	299,539	318,250	5,580	4,548
Saskatchewan	15,354	21,189	25,426	32,004	—	—	—	—
Ontario	3,127	3,138	—	—	—	—	—	—
United States	1,090	2,500	—	—	—	—	—	—
TOTAL	2,839,598	3,000,169	9,902,305	10,105,752	299,539	318,250	5,580	4,548

*Re-stated To Include Royalty

CRUDE OIL

Gross sales volumes of crude oil decreased 5.4% from 1973, due, in large part, to the taxes levied on exports to the United States which reduced market demand and which were only partially offset by the small volume of production sold to Quebec and the Maritimes and transported through the Panama Canal or by Great Lakes tankers.

At the end of 1973, Alminex's oil prices averaged \$3.89 per barrel. At a Federal-Provincial Conference it was agreed that oil prices would rise on April 1, 1974, and, in your Company's case, an average barrel now sells for \$6.55. This price is still well below that prevailing in world markets and, since the Alberta Government has taken the position that its agreement on price with the Federal Government is no longer binding, there is a likelihood that prices will rise following the 1974-75 winter heating season.

NATURAL GAS AND NATURAL GAS LIQUIDS

Natural gas sales volumes decreased a modest 2.0% over last year. All fields are producing at, or near, their capacity and no new fields were placed on stream. Gas prices, however, rose dramatically. Alminex sells most of its production to TransCanada PipeLines Limited and a package agreement was reached with that company whereby effective November 1, 1974, the price for most of the gas sold rose from 26c per Mcf to 60c per Mcf. One exception to this was the Marten Hills field, where the price increased from 14c per Mcf to 27c per Mcf. However, all fields are subject to annual price redeterminations and we have advised TransCanada of our desire that negotiations for new prices be begun early in 1975. In turn, TransCanada has indicated its willingness to pay Alminex whatever price is agreed to in "valid and binding" arbitration which it is entering into in the near future with Gulf Oil Canada Limited. Such arbitration is expected to result in higher prices and rectify the disparity at Marten Hills.

Alberta and Southern Gas Co. Ltd., which purchases most of your Company's remaining gas production, increased the price it pays from an average of 26c per Mcf to 55¼c per Mcf on a one-year contract effective July 1, 1974. However, the Federal Government set an export price at the United States border of \$1.00 per Mcf effective January 1, 1975, and, as provided for in the agreement with Alberta and Southern, Alminex's selling price increased by almost 27c per Mcf at the same time, based on an estimate by the Energy Resources Conservation Board.



Carstairs gas processing plant in Southern Alberta in which Alminex has an interest.

Negotiations were also concluded with the owners of the Judy Creek gas plant, which processes all of the gas associated with oil production from fields in the Swan Hills area, whereby one-half of all natural gas and natural gas liquids price increases above a base period accrue to Alminex and the other producers.

Natural gas liquids consist of propane, butane and condensate. Gross sales volumes of these products declined by 5.9%. The selling prices for propane and butane rose significantly during the year, but weakened at year-end. The selling price of condensate is directly related to the value placed on high-gravity oil and rose accordingly.

SULPHUR

Alminex's sulphur sales are minor, but showed the only volume increase, 22.7%, of any product over the previous year. Selling prices improved modestly and, while they are still well below the levels of previous years, it is expected that they will show further recovery during 1975.

RESERVES

As in the case of product sales volumes, reserves are no longer being reported on a net-after-royalty basis, and for the same reasons. The following table lists the gross remaining proven and probable reserves of crude oil, natural gas, natural gas liquids and sulphur as of December 31, 1974, and compares these figures with those of last year:

	December 31	
	1974	1973*
Crude Oil (Millions of Barrels)		
Proven and Probable	42.419	45.888
Natural Gas Liquids (Millions of Barrels)		
Proven and Probable	2.858	4.648
Natural Gas (Billions of Cubic Feet)		
Proven and Probable	184.280	187.824
Sulphur (Thousands of Long Tons)		
Proven and Probable	316	346

*Re-stated To Include Royalty

CRUDE OIL

Proven and probable reserves of crude oil were reduced by 3,469,000 barrels during the year. Only minor reserves were ascribed to the oil discovery in Colorado because further testing is necessary to determine its significance. Based on better-than-expected performance of water flood schemes, a number of upward adjustments in reserves were recorded at Crossfield Cardium, Harmattan Elkton and other Alberta fields, but poorer results downgraded those at Inverness, Alberta, and Clabaugh in Wyoming. These downward adjustments, together with the year's production of 2,839,598 barrels, more than offset the increases and resulted in the overall decline.

NATURAL GAS

Natural gas reserves declined. Despite some down-grading of reserves at Inverness to match the reduction in oil reserves, upward adjustments in producing fields and new discoveries increased proven and probable reserves by 6.358 billion cubic feet. This was insufficient to compensate for the year's production of 9.902 billion cubic feet, resulting in an overall reduction of 3.544 billion cubic feet. No new reserves are as yet added for any of the gas discoveries made in the Gulf of Mexico.

NATURAL GAS LIQUIDS

Gross reserves of natural gas liquids declined by 1,790,000 barrels due to the year's production of 299,539 barrels and the down-grading of proven reserves and the elimination of a large volume of probable reserves at Carstairs, Alberta, which are no longer considered recoverable. Although certain gas discoveries made during 1974, particularly those in the Gulf of Mexico, are expected to contain recoverable natural gas liquids, no estimates of their reserves have been included.

SULPHUR

Estimates of recoverable sulphur from the Harmattan Elkton field were reduced and, together with the year's production of 5,580 long tons, resulted in a total decrease in proven and probable reserves of 30,000 long tons.

HIGHER ROYALTIES

Alminex's production in Saskatchewan is very small and it has none in British Columbia, although it has interests in several shut-in gas wells in that Province. Therefore, as the tax and royalty policies of these Governments have little or no effect on Alminex's present production, it is not intended to deal at length with these policies, but only with those of Alberta, where the bulk of your Company's production is located.

On January 1, 1974, the Mineral Reserve Tax on Crown lease oil production was eliminated and the royalty rate increased from 16 $\frac{2}{3}$ % to 25%. This tax on Freehold production continues to be payable. Also effective January 1, 1974, the royalty payable on natural gas rose substantially and, on April 1, 1974, crude oil royalties were again adjusted upward. The Alberta Government has differentiated between existing oil and gas production from Crown leases, terming it "old" production, and future oil and gas production which it defines as "new" production. Although there is no maximum royalty rate on oil, at the higher production levels of 200-300 barrels per day, such as occur at Swan Hills, the rate on old oil is about 40%. If this were new oil, the rate would be 23%. These rates include an unbelievably high incremental royalty of 65% on the price of old oil above \$4.11 per barrel, and 35% on new oil above the same price. The Alberta Government's Petroleum Exploration Plan of incentives, if implemented, contains a concession. Effective January 1, 1975, the incremental rate of 65% will be levied on old oil prices above \$4.71 per barrel, which effectively reduces the overall royalty by about 10%.

Neither is there a maximum royalty on gas and, at the highest price (60c per Mcf) Alminex received during 1974, the rate on old gas is about 36%. The equivalent new gas rate would be about 28%. Included in these rates is the onerous incremental royalty on old gas of 65% at prices over 72c per Mcf, whereas 35% is payable on new gas. Alberta's incentives provide that the supplementary royalty for sales of old gas above 72c per Mcf will be reduced to 50%, effective the beginning of 1975.

As mentioned previously, the foregoing Provincial levies have been deemed by the Federal Government to be revenue in the hands of the oil companies and, therefore, subject to taxation. Thus, the confrontation between the Federal and Provincial Governments has resulted in double-taxing the oil companies and eliminating funds better used in exploring for oil and gas.

FINANCIAL

Because of onerous increases in royalties and taxation, Alminex's net income for the fiscal year ended December 31, 1974, would have declined except for the concessions proposed by the Alberta Government's incentive program. Revenue from the sales of gas, oil, natural gas liquids and sulphur, less royalties, increased 26.4% over the corresponding period for 1973, to \$14,318,680, and total revenue, including investment income, was \$14,776,076, up 27.9%. At the same time, however, Provincial royalties rose 216.7%, to \$6,979,265, and, as is evident, eliminated most of the benefits of the higher selling prices received from product sales. Operating expenses were lower only because the Mineral Reserve Tax payable on the crude oil produced from Crown leases was replaced by higher Provincial royalties and, as exploration expenses, including geophysical and geological costs, increased, total expenses were approximately the same as those incurred in 1973. Income, after subtracting these costs and other provisions for property surrendered, depletion and depreciation, but before income taxes, amounted to \$8,307,079.

During the year, the Company adopted the deferred tax method of accounting for timing differences between financial income and taxable income. Current and deferred income taxes of \$3,455,000 were higher by 55.3%. Net income for the year was \$4,852,079, or 63c per share, which represented an increase of 55.6% over 1973's fiscal year only because of Alberta's proposed tax relief. The Federal proposals reduced Alminex's net income by

\$1,383,000, of which \$1,193,000 was restored by Alberta Government actions.

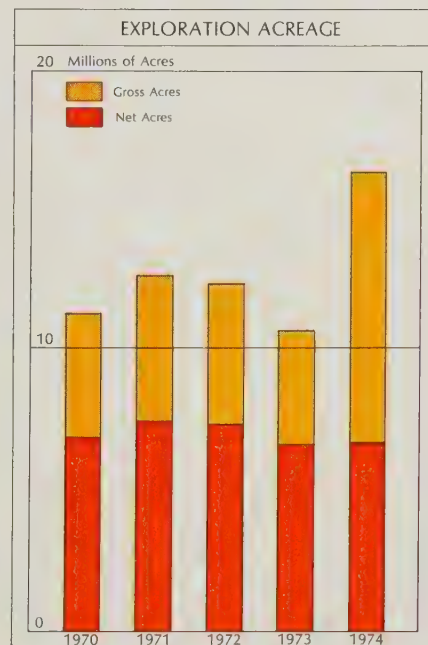
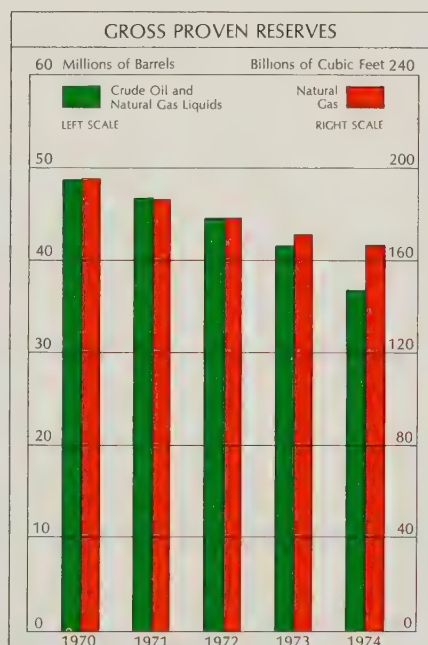
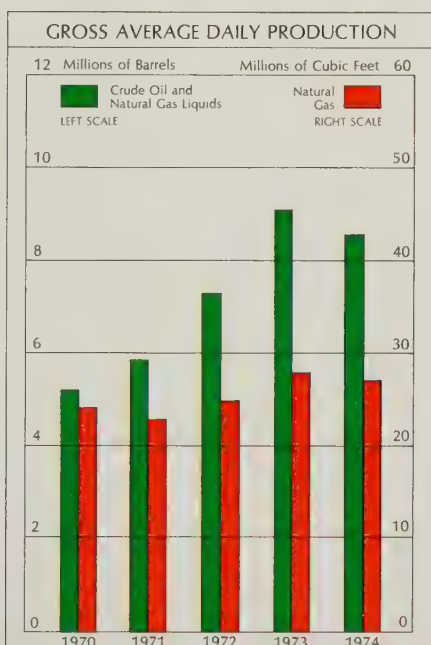
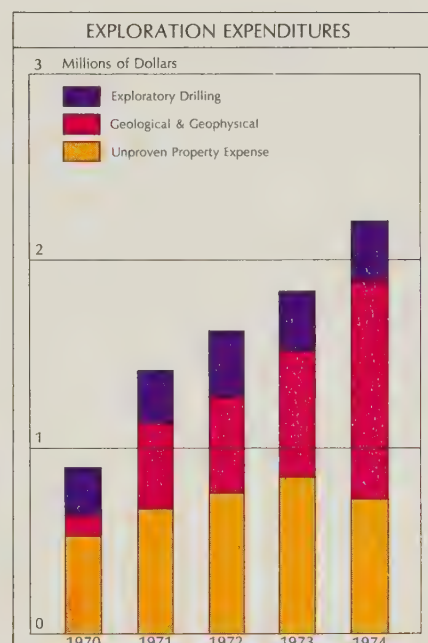
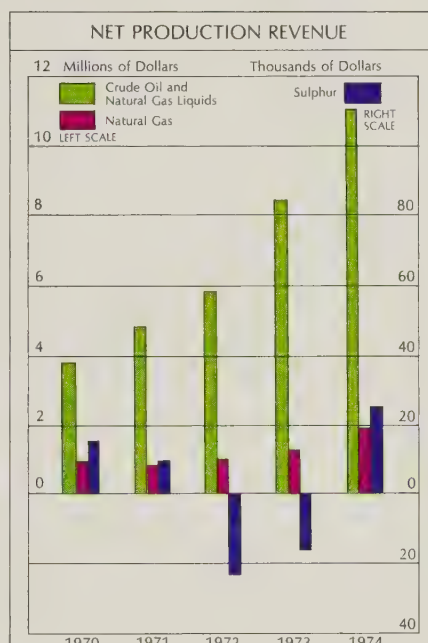
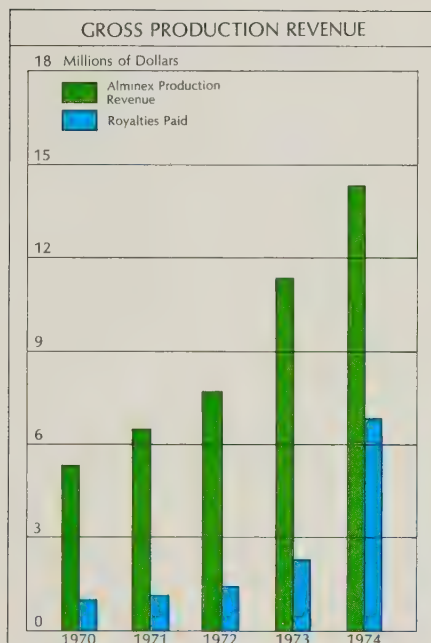
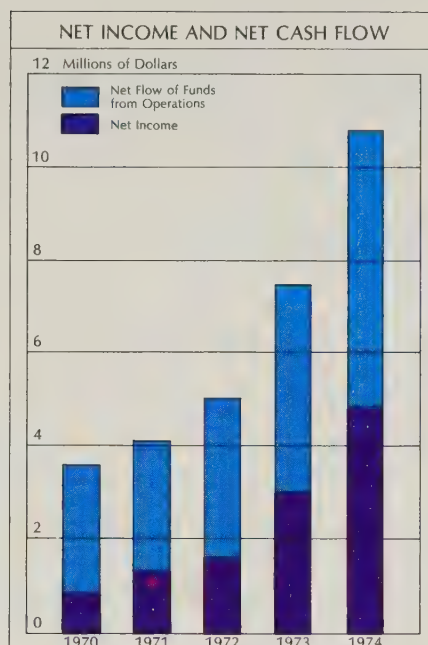
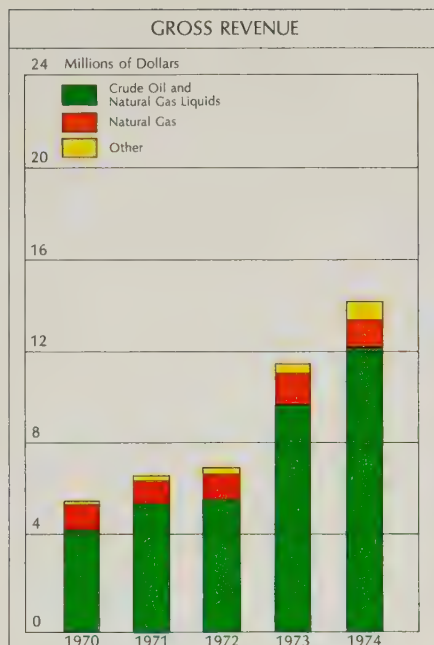
The following table re-states briefly the net income for the periods ended June 30 and September 30, 1974, which were affected retroactively by the taxing proposals of the Federal and Alberta Governments:

	Period Ending	
	June 30	Sept. 30
Net Income As Reported ...	\$2,177,770	\$3,551,507
Less Adjustment For Net		
Increase In Federal and		
Provincial Income Taxes ..	110,800	296,000
Revised Net Income	<u>\$2,066,970</u>	<u>\$3,255,507</u>

Despite the political and economic uncertainties in 1974, your Board of Directors maintained the dividend payout of 24c, or \$1,839,039.

Capital expenditures rose by a substantial percentage over 1973, to \$4,093,154. Additions to plant and equipment were only modestly higher, at \$544,078, but the development of proven properties and the acquisition of new properties increased substantially, to \$1,542,564 and \$2,006,512 respectively. The latter was due, in large part, to the acquisition of Federal lands in the Gulf of Mexico.

PANARCTIC OILS LTD: As an original farmer to Panarctic Oils Ltd., Alminex had the option to purchase a part of a secondary offering of common stock which that company made on March 2, 1974. Alminex elected to exercise its option and purchased 13,155 treasury shares at a cost of \$164,437.50, of which half has been met to date. These funds are payable over a period of approximately 18 months and qualify as an exploration expense for calculation of income tax.



ALMINEX LIMITED

TEN YEAR SUMMARY

FINANCIAL

	1974	1973	1972
Gross Production Revenue (After Royalty)	\$14,318,680	\$11,329,486	\$ 7,727,121
Net Production Revenue (After Operating Costs)	13,057,160	9,656,854	6,831,842
Administrative and General Expense	309,952	273,471	205,074
Interest Expense	—	—	—
Exploration Expense ¹	2,318,672	1,862,062	1,663,468
Depletion, Depreciation and Write-offs	2,578,853	2,404,034	2,208,673
Cash Earnings (After All Cash Expenses)	10,885,932	7,746,505	5,068,838
Net Income ³	4,852,079	3,117,436	1,584,568
Bank Loans Outstanding	—	—	—

OPERATING

Daily Production:⁴

Oil and NGL (Barrels)	8,600	9,091	7,261
Natural Gas (Thousands of Cubic Feet)	26,667	27,172	24,755

Reserves (Proven and Probable):

Crude Oil (Barrels)	42,419,000	45,888,000	48,299,000
Natural Gas Liquids (Barrels)	2,858,000	4,648,000	5,043,000
Natural Gas (Billions of Cubic Feet)	184.28	187.82	191.36
Sulphur (Long Tons)	316,000	346,000	226,000
Net Acreage	6,891,429	6,760,274	7,378,799

¹Includes exploration drilling, dry hole costs, geological, geophysical and unproven property expense.

²Re-stated to reflect consolidation of the United States and United Kingdom wholly-owned subsidiaries.

³Re-stated to reflect adoption of deferred taxes on a retroactive basis.

⁴Re-stated to "Before Royalty" basis. Figures for 1974 and 1973 are actuals, prior years are estimated.

1971	1970	1969	1968	1967	1966	1965
6,457,406	\$ 5,366,105	\$ 4,775,003	\$ 4,713,879	\$ 4,397,132	\$ 3,802,247	\$ 3,635,583
5,653,348	4,680,232	4,251,959	4,176,554	3,877,245	3,332,191	3,237,582
188,405	170,121	154,097	150,360	152,851	145,863	135,936
—	30,128	52,150	96,075	129,399	142,114	135,691
1,451,960 ²	901,168 ²	1,022,724	1,217,884	1,074,540	749,111	623,341
1,808,332 ²	1,519,112 ²	1,400,604	1,242,889	1,280,081	1,072,420	973,734
4,094,371 ²	3,649,014 ²	3,038,017	2,735,134	2,530,494	2,295,103	2,342,614
1,194,039	1,029,902	829,413	749,245	617,118	631,683	753,445
—	—	827,000	734,000	1,812,000	2,426,000	2,390,000
6,027	5,189	4,705	4,424	4,058	3,771	3,559
22,951	24,192	18,722	16,375	15,784	16,594	17,157
50,427,000	52,400,000	54,285,000	55,085,000	56,923,000	57,699,000	58,260,000
5,310,000	5,533,000	5,749,000	6,010,000	6,183,000	5,162,000	3,967,000
198.18	208.03	209.44	201.93	192.32	186.21	186.72
232,000	237,000	246,000	255,000	262,000	313,000	493,000
7,468,414	6,941,139	7,138,206	6,947,635	2,707,183	2,691,002	716,527

ALMINEX LIMITED

and Subsidiary Companies

(Incorporated under the laws of Canada)

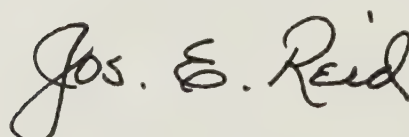
CONSOLIDATED BALANCE SHEET

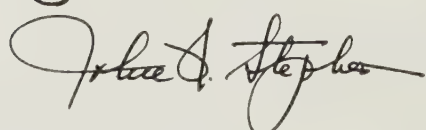
DECEMBER 31, 1974

(with comparative figures at December 31, 1973)

ASSETS	1974	1973
CURRENT ASSETS		
Cash, term deposits and investment certificates	\$ 5,167,156	\$ 4,266,438
Accounts receivable	1,555,954	1,404,136
Inventory, at lower of cost and replacement cost	69,330	56,522
Prepaid expenses	7,754	6,996
	<u>6,800,194</u>	<u>5,734,092</u>
OTHER ASSETS		
Investments, at cost		
Marketable (quoted market value 1974, \$5,350; 1973, \$8,845)	9,710	9,710
Other (note 3)	93,322	8,481
Operating and performance deposits	121,493	154,827
	<u>224,525</u>	<u>173,018</u>
PROPERTY, PLANT AND EQUIPMENT, at cost (note 3)	53,457,240	49,587,036
Less accumulated depletion and depreciation	20,909,315	18,553,412
	<u>32,547,925</u>	<u>31,033,624</u>
	<u>\$39,572,644</u>	<u>\$36,940,734</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 445,827	\$ 680,484
Income and other taxes payable	993,550	1,019,142
Current portion of prepayments on future gas deliveries	—	100,000
	<u>1,439,377</u>	<u>1,799,626</u>
PREPAYMENTS ON FUTURE GAS DELIVERIES (note 4)	239,373	608,254
DEFERRED INCOME TAXES (note 1 (c))	<u>2,917,000</u>	<u>2,569,000</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 5)		
Authorized		
10,000,000 shares without par value		
Issued		
7,662,661 shares	35,082,432	35,082,432
CONTRIBUTED SURPLUS	70,091	70,091
DEFICIT	(175,629)	(3,188,669)
	<u>34,976,894</u>	<u>31,963,854</u>
	<u>\$39,572,644</u>	<u>\$36,940,734</u>

Approved by the Board

 Director

 Director

ALMINEX LIMITED

and Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1974

(with comparative figures for 1973)

	1974	1973
REVENUE		
Sale of gas and oil, less royalties	\$14,318,680	\$11,329,486
Investment and other revenue	457,396	225,184
	<u>14,776,076</u>	<u>11,554,670</u>
EXPENSES		
Operating	1,261,520	1,672,632
Administrative and general	309,952	273,471
Exploratory drilling and dry hole costs	707,119	848,187
Geophysical and geological	1,238,798	699,487
Unproven property	372,755	314,388
	<u>3,890,144</u>	<u>3,808,165</u>
Income before provisions, write-offs and income taxes	<u>10,885,932</u>	<u>7,746,505</u>
PROVISIONS AND WRITE-OFFS		
Property surrendered	222,962	72,237
Depletion	1,708,600	1,648,314
Depreciation	647,291	683,483
	<u>2,578,853</u>	<u>2,404,034</u>
Income before income taxes	<u>8,307,079</u>	<u>5,342,471</u>
Income taxes (note 1 (c))		
Current	3,107,000	2,293,035
Deferred	348,000	(68,000)
	<u>3,455,000</u>	<u>2,225,035</u>
NET INCOME FOR THE YEAR	<u>\$ 4,852,079</u>	<u>\$ 3,117,436</u>
EARNINGS PER SHARE, based on shares outstanding		
during the year	<u>\$ 0.63</u>	<u>\$ 0.41</u>

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 31, 1974

(with comparative figures for 1973)

	1974	1973
Deficit at beginning of year		
As previously reported	\$ 619,669	\$ 1,832,105
Adjustment for deferred income taxes (note 1 (c))	2,569,000	2,637,000
As restated	3,188,669	4,469,105
Net income for the year	<u>4,852,079</u>	<u>3,117,436</u>
	<u>(1,663,410)</u>	<u>1,351,669</u>
Dividends paid	<u>1,839,039</u>	<u>1,837,000</u>
DEFICIT AT END OF YEAR	<u>\$ 175,629</u>	<u>\$ 3,188,669</u>

ALMINEX LIMITED

and Subsidiary Companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1974

(with comparative figures for 1973)

	1974	1973
SOURCE OF FUNDS		
Income before provisions, write-offs and income taxes	\$10,885,932	\$ 7,746,505
Income taxes, current	3,107,000	2,293,035
Funds provided by operations	7,778,932	5,453,470
Increase in prepayments on future gas deliveries, net	—	162,354
Issue of capital stock	—	75,650
	<u>7,778,932</u>	<u>5,691,474</u>
APPLICATION OF FUNDS		
Acquisition of properties	2,006,512	987,892
Development of proven properties	1,542,564	486,474
Additions to plant and equipment	544,078	425,817
	<u>4,093,154</u>	<u>1,900,183</u>
Decrease in prepayment on future gas deliveries	368,881	—
Increase in other assets	51,507	78,639
Dividends paid	1,839,039	1,837,000
	<u>6,352,581</u>	<u>3,815,822</u>
INCREASE IN WORKING CAPITAL	1,426,351	1,875,652
WORKING CAPITAL AT BEGINNING OF YEAR	3,934,466	2,058,814
WORKING CAPITAL AT END OF YEAR	<u>\$ 5,360,817</u>	<u>\$ 3,934,466</u>

ALMINEX LIMITED

and Subsidiary Companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1974

1. Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of Alminex Limited and its wholly-owned foreign subsidiaries Alminex (U.S.) Inc., Alminex U.S.A., Inc., Alminex (U.K.) Limited, and A/S Norsk Alminex Limited.

Amounts in foreign currency are translated into Canadian currency on the following basis:

- (i) Current assets and current liabilities at exchange rates in effect at the end of the year
- (ii) Non-current assets and liabilities at the rate prevailing when acquired or incurred; and
- (iii) Revenue and expenses, at the average rate of exchange for the year, except for depreciation and depletion which are on the same rates as the related assets.

(b) Oil and gas operations

The costs of acquiring interests in proven and unproven oil and gas properties and the development costs of productive wells are capitalized. Property costs of an area are transferred from unproven to proven properties when production commences. Depletion is provided on proven property costs, including development costs of productive wells, on a unit of production method based on the total of estimated proven and probable reserves of oil and gas.

Lease rentals and other unproven property costs, dry hole costs and exploration expenses are charged to expense as incurred. The costs of properties which are abandoned are written off when the properties are surrendered.

Depreciation on plant and equipment is provided on a diminishing balance basis at annual rates of 20% on gas plants, 30% on production equipment and various rates on other equipment, which rates are considered sufficient to write off the cost of the equipment over its estimated useful life.

(c) Income taxes

For income tax purposes the company claims capital cost allowances (depreciation) and property and development costs in amounts which may exceed the related costs reflected in its accounts. In prior years, capital cost allowances claimed for tax purposes and depreciation provided in the accounts were the same.

In prior years the company charged earnings with income taxes currently payable. In 1974 the company adopted, with retroactive effect, the tax allocation method of accounting for income taxes. Under tax allocation, deferred income taxes are provided to the extent that current income taxes have been reduced by claiming capital cost allowances and property and development costs in excess of the related depreciation, depletion and property costs charged against earnings in the accounts. The comparative figures for 1973 have been restated to reflect a cumulative provision for deferred taxes of \$2,569,000 at January 1, 1974 (\$2,637,000 at January 1, 1973) and a corresponding increase in the previously reported deficit, and an increase in the net income previously reported for 1973. The effect of the change for each of the years ended December 31, 1973 and 1974 is as follows:

		Increase (Decrease) in Net Income	
		Total	Per Share
1973	\$ 68,000	\$ 0.01
1974	\$(348,000)	\$(0.05)

Total income tax expense for the year ended December 31, 1974 includes the effect of income tax changes proposed in the budget dated November 18, 1974 by the Minister of

Finance of Canada and the announced "Alberta Petroleum Exploration Plan of December 1974", both effective from May 6, 1974. These proposed changes have not yet been passed by the respective parliamentary bodies. After a refund of \$1,193,000 from the Province of Alberta, the net effect of the proposed changes is to increase income tax expense and decrease net income by \$190,000 (\$.02 per share).

2. Investments

Other investments at December 31, 1974 include 13,155 common shares of Panarctic Oils Ltd. acquired in consideration of an undertaking by Alminex to incur exploration and development expenditures of \$164,437 on lands controlled by Panarctic (\$82,386 has been incurred and is included as the cost of Panarctic shares).

3. Property, Plant and Equipment

	1974			1973
	Cost	Accumulated Depletion and Depreciation	Net	Net
Proven properties, including development	\$40,316,777	\$14,394,227	\$25,922,550	\$26,088,587
Unproven properties	4,436,242	—	4,436,242	2,652,680
Plant and equipment	8,704,221	6,515,088	2,189,133	2,292,357
	<u>\$53,457,240</u>	<u>\$20,909,315</u>	<u>\$32,547,925</u>	<u>\$31,033,624</u>

4. Prepayments on Future Gas Deliveries

The company has received an advance payment of \$239,373 on future delivery of gas in the United States. The advance is to be repaid in progressive amounts over a five year period from the date of initial delivery or in five equal instalments to commence the earlier of: completion of the exploration program if commercial production is not achieved, or August, 1978.

5. Capital Stock

At December 31, 1974 there were outstanding options to employees to purchase a total of 100,000 shares at \$4 per share exercisable as follows:

67,500 shares at the discretion of directors of the company,

32,500 shares on a cumulative basis in five equal instalments to December 31, 1979.

6. Other Statutory Information

	1974	1973
Number of directors	6	6
Aggregate remuneration of directors as directors	nil	nil
Number of officers	6	6
Aggregate remuneration of officers as officers	\$94,706	\$80,412
Number of officers who are also directors	4	4

AUDITORS' REPORT

To the Shareholders of
Alminex Limited

We have examined the consolidated balance sheet of Alminex Limited and subsidiary companies as at December 31, 1974 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change to the allocation basis of accounting for income taxes as explained in note 1 (c) to the financial statements, on a basis consistent with that of the preceding year.

Calgary, Alberta
January 29, 1975

THORNE RIDDELL & CO.
Chartered Accountants

PRODUCING PROPERTIES

OIL

	SALES VOLUME	
	1974	1973*
	(Barrels Including Royalty)	
ALBERTA		
Swan Hills	1,735,857	1,826,188
Virginia	333,185	371,710
Mitsue	226,936	240,683
Harmattan Elkton	209,594	214,107
Inverness	74,195	79,626
Pembina	71,133	79,375
Harmattan East	52,870	46,286
Westward Ho	29,883	23,170
Medicine River	21,961	22,078
Crossfield Cardium	19,366	18,902
Freeman	14,466	11,076
Erskine D-3	14,018	19,286
Manyberries	6,215	8,077
House Mountain	3,441	4,106
Stettler	2,765	4,022
Sundre	2,359	2,681
Retlaw	1,036	1,130
West Provost	474	493
Total Alberta	2,819,754	2,972,996
ONTARIO	3,127	3,138
SASKATCHEWAN	15,354	21,189
UNITED STATES	1,090	2,500
ROYALTY INTEREST	273	346
TOTAL	2,839,598	3,000,169
DAILY AVERAGE	7,780	8,220

*Re-stated To Include Royalty

PRODUCING PROPERTIES

GAS AND NATURAL GAS LIQUIDS

	GAS SALES VOLUMES (at 14.4 psi)		NGL SALES VOLUMES	
	1974	1973*	1974	1973*
	(MCF Including Royalty)		(Bbls. Including Royalty)	
ALBERTA				
Carstairs	4,555,497	4,184,204	182,060	207,871
Marten Hills	1,312,701	1,413,078	—	—
Swan Hills	980,647	1,051,691	—	—
Bindloss	980,544	981,393	—	—
Harmattan Elkton	485,152	782,456	79,835	77,468
Retlaw	332,629	268,450	3,058	2,629
Whitecourt	233,926	247,396	1,113	263
Calgary Units	154,010	173,801	6,066	6,998
West Provost	153,113	180,799	187	158
Virginia Hills	147,872	175,782	—	—
Pendor	112,676	157,787	—	—
Harmattan East	108,438	83,979	9,429	6,914
South Elkton	93,228	88,168	2,134	2,162
Mitsue	70,160	82,892	13,450	11,840
Inverness	37,719	42,396	—	—
Crossfield Turner Valley	35,831	39,984	1,554	1,947
Atlee Buffalo	22,288	44,341	—	—
Westward Ho	17,798	14,710	542	—
Erskine	12,126	19,063	—	—
Sylvan Lake	10,369	10,687	—	—
Other Interests	6,802	21,788	111	—
Total Alberta	9,863,526	10,064,845	299,539	318,250
SASKATCHEWAN	25,426	32,004	—	—
ROYALTY INTEREST	13,353	8,903	—	—
TOTAL	9,902,305	10,105,752	299,539	318,250
DAILY AVERAGE	27,129	27,686	820	871

SULPHUR

	SALES VOLUMES	
	1974	1973*
	(Long Tons Including Royalty)	
ALBERTA		
Harmattan Leduc	4,261	3,415
Carstairs Crossfield	1,196	987
Calgary Units	123	146
TOTAL	5,580	4,548
DAILY AVERAGE	15	12

Executive Office

300, 407 Eighth Avenue S.W.
Calgary, Alberta T2P 1E5

Auditors

Thorne Riddell & Co.

Solicitors

Milner & Steer, Calgary, Alberta
Thomas W. Whittington, Denver, Colorado

Bankers

The Royal Bank of Canada
Canadian Imperial Bank of Commerce
First National City Bank

Registrar and Transfer Agents

Crown Trust Company
Vancouver, Calgary, Toronto, Montreal

Shares Listed (Symbol ALN)

Toronto Stock Exchange

Subsidiary Companies

Alminex (U.K.) Limited
Alminex (U.S.) Inc.
Alminex U.S.A., Inc.
A/S Norsk Alminex Limited

